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C O N F I D E N T I A L SECTION 01 OF 02 KATHMANDU 000625

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SUBJECT: NEPAL: EMBASSY ADVOCATES FOR BOEING

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[1](#)B. KATHMANDU 431
[1](#)C. KATHMANDU 202

Classified By: Charge d'Affaires a.i. Jeffrey A. Moon. Reasons 1.4 (b/d)

Summary

[1](#)1. (SBU) Prime Minister Madhav Nepal and Minister of Tourism and Civil Aviation Sarad Bhandari vowed in meetings the week of July 6 that the Nepal Airlines Corporation's decision to purchase new aircraft would be fair and transparent. PM Nepal expressed this commitment to transparency during the Ambassador's July 8 farewell visit. Two days later, Minister Bhandari articulated an even more steadfast commitment during a meeting with the Charge d'Affaires (CDA). In response to reports that the decision-making process had tilted in favor of Airbus, the Ambassador and CDA stressed that operating costs are as critical a factor as purchase price. Both Boeing and a local airline expert maintain it would be financially imprudent for the NAC to purchase a wide-body aircraft. Minister Bhandari wants to act quickly.

PM Nepal: GON Committed to Transparency

[1](#)2. (SBU) During her July 8 farewell visit, the Ambassador urged Prime Minister Madhav Kumar Nepal to ensure that the Government of Nepal's (GON's) decision regarding the purchase of two new aircraft by Nepal Airlines Corporation (NAC) -- one narrow-body and one wide-body -- be the result of a transparent process. Press reports, she said, already had raised some concerns that the process might not have been fair so far. PM Nepal reported that he had received the letter from Assistant Secretary of State for South and Central Asian Affairs Robert Blake recommending Boeing aircraft and calling for transparency in the decision-making process. He promised the process would be fair. The Prime Minister noted that, while the recent crashes involving Airbus planes, as well as Boeing's long-standing relationship with NAC, made him more inclined to favor Boeing, the company was hurt by the fact that its bid was much higher than the one Airbus submitted. The Ambassador responded that in the long term Boeing aircraft were more cost-effective.

Aviation Minister Forcefully Echoes PM's Promise

[1](#)3. (SBU) In a July 10 meeting with Tourism and Civil Aviation Minister Sarad Singh Bhandari, the CDA emphasized that only a fair and open competition could ensure the best possible deal

for NAC and the Nepali people. He also delivered a letter to the Minister from Deputy Assistant Secretary of Commerce Holly Vineyard advocating the purchase of Boeing aircraft via a fair competition. Acknowledging that NAC's history on the issue of business transparency "is not good," Minister Bhandari vowed that the decision-making process would be "very, very impartial and completely transparent." He explained that he aims to build a "government consensus" in support of NAC's ultimate decision, and this will not be possible if the decision is not made in a fully transparent manner. He underscored his commitment to fairness by pointing out that he has not yet looked at the report of the technical advisory committee NAC established to review the bids because he does not want to be seen as trying to influence the final decision of the NAC Board of Directors.

¶4. (SBU) According to press reports, the technical advisory committee recommended that NAC accept the Airbus proposal, citing the lower purchase price, quicker delivery (2009 for both aircraft vs. 2010 for one, as specified in request for proposals) and Boeing's failure to submit a bid for a wide-body aircraft. The CDA stressed the need for NAC to consider all relevant factors before making a decision. He pointed out that operating costs are as critical a factor as purchase price in determining which aircraft is the better deal. He also underscored that importance of ensuring that the aircraft NAC purchases match its market potential, noting that both Boeing and an outside expert believe the purchase of a wide-body plane would not be profitable. Minister Bhandari indicated that these factors will be considered before a final decision is made.

KATHMANDU 00000625 002 OF 002

¶5. (SBU) When asked how soon the NAC board will act, the Minister declined to predict. He did acknowledge that the change in government, which came just before the May 22 bidding deadline, has delayed the final decision. In the wake of this change, three NAC board members appointed by the previous government stepped down. Bhandari, who earlier in the meeting noted that, when he thought of jets, he thought of Boeing, speculated that new members will in place by sometime the week of July 13.

Boeing Eyes NAC's Bottom Line Airbus, Its Own Profits

¶6. (SBU) Boeing has requested and received Commerce Department approval for Embassy Advocacy assistance. During a June 22 meeting with the CDA, Boeing's Director of International Sales, Suvendoo Ray, said the company did not submit a bid to supply a wide-body aircraft because it believed it would be financially imprudent for NAC to purchase one. According to Ray, NAC wants the aircraft to initiate service between Kathmandu and London, via Frankfurt, but a market study conducted by Boeing indicated that there would be insufficient passenger volume to make this service economically viable. He added that a wide-body purchase by NAC "is a disaster in the making."

¶7. (C) Birendra Basnet (please protect), Managing Director of Buddha Air, Nepal's largest private airline and a long-time Embassy contact, issued an equally dire warning during a July 8 meeting with Emboffs, saying the purchase of a wide-body aircraft would "make the NAC collapse within the next six to eight months." Even so, he predicted NAC would eventually accept the Airbus bid. In addition to a lower purchase price, he said Airbus had two other advantages: the offer of a financing package and the ability to deliver the aircraft immediately because they have already been built for another airline, which has canceled its order.

¶8. (C) Basnet said it is a "win-win situation for Airbus, even if it is forced to repossess the aircraft. He explained that the company will be able to "unload a plane that is sitting on the tarmac in Toulouse," the European

manufacturer's French base. If Airbus has to repossess the aircraft, he added, the cost would be more than offset by NAC's non-refundable deposit, which is typically 10 percent of the total purchase price, or, in this case, approximately USD 12 million.

¶9. (C) Post also noted that the Center for Asia Pacific Aviation (CASA), which the NAC's technical advisory committee hired to assist it in evaluating the bids, lists Airbus as one of its major customers. Furthermore, Post has been told by NAC's former managing director that the individual who carried out the work for CASA is also the Managing Director for Airbus South Asia.

Comment

¶10. (C) The momentum appears to be in Airbus' favor at this time, but Boeing could still close the deal. Some observers have noted that Boeing could significantly improve its chances if it could include financing in its package.

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